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SYN. NO. _____

AGN. NO. _____

MOTION BY SUPERVISOR ZEV YAROSLAVSKY

September 5, 2006

Los Angeles County has over 1 million adult smokers and approximately 74,000 youth smokers between the ages of 14 and 17. One in every seven county deaths is caused by cigarette smoking. Tobacco-related illnesses cost to LA County economy is \$4.3 billion per year, of which \$2.3 billion is spent on direct medical costs. Some of these costs have been offset by funds generated from the state's tobacco excise tax, which is currently 87 cents per pack of cigarettes. These tax revenues have also helped to establish tobacco prevention and cessation programs in the Department of Public Health that reduced the prevalence of smoking in Los Angeles County. In order to continue and, more importantly, expand our efforts to prevent and treat tobacco-related diseases, additional revenues are needed.

The Tobacco Tax Act of 2006, Proposition 86 on the November ballot, will provide statewide funding for the provision of health services by raising the tobacco excise tax by \$2.60 per pack of cigarettes. The initiative will generate approximately \$2.1 billion in annual revenues for hospital emergency services, cancer prevention and treatment programs, nurse education, and health insurance for children. The funds will be allocated as follows: 52.75% (\$1 billion) for Health Treatment and Services, 42.25%

MOTION

MOLINA _____

BURKE _____

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(\$810 million) for Health Maintenance and Disease Prevention, and 5% (\$95 million) for Health and Disease Research; as well as backfill funding in an estimated amount of \$180 million for Proposition 10 (First 5). If enacted, Proposition 86 will provide Los Angeles County with approximately \$96 million per year starting in Fiscal Year 2007-2008. Passage of Proposition 86 will provide an important revenue stream to support the county's healthcare delivery system.

I, THEREFORE, MOVE that the Los Angeles County Board of Supervisors endorse Proposition 86, the Tobacco Tax Act of 2006, and urge the voters of Los Angeles County to vote YES on this ballot measure on November 7, 2006.

CK: S:\Motions\Prop. 86



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August 31, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

**MOTION TO ENDORSE PROPOSITION 86, THE TOBACCO TAX ACT OF 2006
(ITEM NO. 8, AGENDA OF SEPTEMBER 5, 2006)**

Item No. 8 on the September 5, 2006 Agenda is a motion by Supervisor Yaroslavsky to endorse Proposition 86, the Tobacco Tax Act of 2006, and urge the voters of Los Angeles County to vote yes on this ballot measure on November 7, 2006.

Effective January 1, 2007, Proposition 86 would increase excise taxes on cigarettes by \$2.60, from \$0.87 to \$3.47 per pack, to fund hospital emergency services, increase access to health insurance for children, expand nursing education, support health education activities, curb tobacco use and regulate tobacco sales. Existing State law requires the Board of Equalization to increase taxes on other tobacco products, such as loose tobacco and snuff, in an amount equivalent to any increase on the tax on cigarettes, so this measure would result in a comparable increase in the excise tax on other tobacco products.

Revenues from the excise tax increase would be allocated for the following purposes:

Backfill of Proposition 10 Programs. An unspecified amount would be used to fully backfill Proposition 10 programs for early childhood development for the loss of funding that would result from the enactment of the new measure due to reduced sales of tobacco products and increased sales for which taxes would not be collected, including purchases made on the Internet, from out-of-state, or of smuggled products.

Health Treatment and Services Account. After the Proposition 10 backfill, 52.75 percent of the funds would be allocated to the Health Treatment and Services Account which contains a series of sub-accounts that can be used for a variety of purposes. Of the entire allocation in the Health Treatment and Services Account, 74.50 percent would be allocated to hospitals for the un-reimbursed cost of emergency services and to improve or expand emergency services, facilities or equipment. Private and public hospitals would be eligible to receive this funding based on a formula that includes uncompensated care costs and volume. The remainder of the funds in this account would be used to expand nursing education programs, support nonprofit community clinics, reimburse physicians for uncompensated care for the uninsured, repay college loans to encourage physicians to work in underserved communities, provide prostate cancer treatment and smoking cessation programs.

Health Maintenance and Disease Prevention Account. The next 42.25 percent of the funds remaining after the Proposition 10 backfill would be allocated to a Health Maintenance and Disease Prevention Account which also has a series of sub-accounts that can be used for a variety of purposes. Of the entire allocation in the Health Maintenance and Disease Prevention Account, 45.50 percent would be used to expand the Healthy Families Program (HFP) for health coverage to children from families with incomes between 250 percent and 300 percent of the Federal Poverty Level (FPL), and children from families with incomes up to 300 percent of the FPL who are ineligible for HFP due to immigration status and/or income. The remaining funds would be used for various health education programs including public relations campaigns and local health department programs to prevent and reduce smoking; law enforcement and training; and programs related to certain diseases including colorectal, breast and cervical cancer, heart disease, stroke, obesity, and asthma.

Health and Disease Research Account. The remaining five percent of the funds would be allocated to the Health and Disease Research Account to support medical research relating to cancer, including breast and lung cancer, and other tobacco related diseases, as well as the effectiveness of tobacco control efforts. It would also be used to support a State-wide cancer registry to collect data on cancer cases.

Other Significant Provisions. Proposition 86 requires that the State annually allocate \$24.8 million in Proposition 99 funds to counties, an amount equal to that appropriated in FY 2005-06, to reimburse physicians for uncompensated medical care. Funds from the Proposition can not supplant existing State or local spending. The State and counties can not borrow the funds for other purposes, but can use them to draw down additional Federal funds. Contracts to implement new programs would be exempt from State contracting rules for the first five years. The California Department of Health Services would be required to prepare an annual report describing the programs that

received Proposition 86 funding and how the funding was used. Hospitals allocated emergency and trauma care funds would be subject to limits on what they could charge to patients in families with incomes at or below 350 percent of the FPL, and would be required to adopt written policies on their bill collection practices. Hospitals receiving funding would be allowed to coordinate medical services, including emergency services, with other hospitals.

Legislative Analyst's Office Report. Assuming that the additional excise tax is passed on to consumers, the Legislative Analyst's Office (LAO) indicates that a price increase for tobacco products is likely to result in consumers reducing the amount of taxable tobacco products that they purchase or purchasing tobacco products on which taxes would not be collected, including purchases made on the Internet, from out of State, or of smuggled products. The LAO estimates that the increased excise tax will raise about \$1.2 billion in FY 2006-07 and about \$2.1 billion in FY 2007-08, the first full year of implementation, with revenues declining slightly in subsequent years. The LAO expects that a decline in consumption would reduce State General Fund revenues and revenues for Propositions 99, 10 and the Breast Cancer Fund; however, the increased sales tax based on the price of tobacco products plus the new excise tax would be likely to offset these reductions. The LAO estimates that Proposition 86 would result in an annual revenue increase of as much as \$10 million for local governments.

Affected Departments. The Department of Health Services (DHS) recommends support for Proposition 86 because it would provide approximately \$96 million annually for emergency care services provided by DHS hospitals, additional funding for emergency services provided by private hospitals in the County, and community clinics serving uninsured patients. This increased funding would not only help to reduce the DHS forecast deficit, but also alleviate the crisis in emergency medical services and access to care for the uninsured.

The Department of Public Health (DPH) also recommends support for Proposition 86 because it would provide increased funding for tobacco control and chronic disease prevention programs. It also could result in a significant decrease in the average consumption of cigarettes, numbers of smokers, and the health consequences of smoking, which remains the number one cause of preventable deaths in Los Angeles County.

Additionally, both DHS and DPH indicate that Proposition 86 would help to sustain local efforts to increase health insurance for children by funding Healthy Kids initiatives that provide coverage to children ineligible for Medi-Cal or Healthy Families.

The Sheriff has asked us to report that his official position on Proposition 86 is neutral as of this writing; however, he is leaning toward an oppose position.

Support and Opposition. Proposition 86 is sponsored by the American Cancer Society, American Heart Association, American Lung Association, California Hospital Association, Children's Partnership, American College of Emergency Physicians California Chapter, Association of California Nurse Leaders, California Emergency Nurses Association, California Primary Care Association, Tobacco Free Kids Action Fund, Children Now, Emergency and Acute Care Medical Corporation and PICO California. It is supported by over 160 community, health, education, governmental, and business organizations, including the League of California Cities, California State Parent Teacher Association, Children's Defense Fund California, Maternal and Child Health Access, League of Women Voters of California, Los Angeles Chamber of Commerce, American Academy of Pediatrics California District, California Association for Nurse Practitioners, California Association of Physician Groups, California Medical Association, Community Clinics Association of Los Angeles, Intercultural Cancer Council Caucus, Susan G. Komen Breast Cancer Foundation Los Angeles County Affiliate, California Tobacco Control Alliance, California Association of Public Hospitals, California Children's Hospitals Association, and the Health Officers Association of California, among others.

Proposition 86 is opposed by over 50 public safety, business, community, and taxpayer organizations including the Association of Los Angeles Deputy Sheriffs (ALADs), Los Angeles Police Protective League, Association of California Neurologists, Asian Business Coalition, California Chamber of Commerce, California State Conference of the NAACP, Small Business Action Committee, Women Impacting Public Policy, Americans for Tax Reform, California Taxpayers Association, Howard Jarvis Taxpayers Association, National Tax Limitation Committee, National Taxpayers Union, Taxpayer Protection Committee, California Distributors Association, California Retailers Association, California Association of Retail Tobacconists, California Beverage Merchants, California Grocers Association, California Manufacturers and Technology Association, National Association of Wholesale Distributors, and the Tavern Owners United for Fairness, among others. ALADs is opposed to Proposition 86 because of the potential to cause additional workload for law enforcement due to increased smuggling of tobacco products.

Existing County Policy. Historically, the County has supported funding for emergency medical and trauma care, tobacco control and chronic disease prevention, and children's health insurance coverage. The County sponsored Measure B in 2002, which raised property taxes for emergency and trauma care, sponsored State legislation which would have provided the County with the authority to pursue a local alcohol tax for

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similar purposes, and on November 12, 2004 took a support position on Proposition 67 which would have increased the surcharges on telephone calls made within California to fund 911 emergency dispatch, emergency rooms, trauma centers and emergency doctors.

The County's State Legislative Agenda adopted by the Board on January 16, 2007, includes the following policy statements: 1) support measures to provide permanent, stable funding for the County's public and private emergency and trauma care system, 2) support proposals which reduce the number of uninsured persons, 3) support for measures which reduce the prevalence of smoking, and 4) support funding of chronic disease programs.

However, because there is no existing County policy on increasing the tobacco tax to fund these services, support for this measure is a matter for Board policy determination.

DEJ:GK
MAL:JF:MS:cc

c: Executive Officer, Board of Supervisors
County Counsel
Department of Health Services
Department of Public Health
Sheriff Department